

AGENDA ITEM 3

DATE: July 23, 2014

TO: THE LOS ANGELES GRAND AVENUE AUTHORITY

FROM: SANTOS H. KREIMANN, COUNTY OF LOS ANGELES, CHIEF
EXECUTIVE OFFICE, DEPUTY CHIEF EXECUTIVE OFFICER

**SUBJECT: GRAND AVENUE PROJECT – PHASE I (PARCEL Q)
APPROVAL OF VARIOUS ACTIONS RELATING TO THE
DEVELOPMENT OF GRAND AVENUE PROJECT-PHASE I ON
PARCEL Q (150 SOUTH GRAND AVENUE) OWNED BY THE COUNTY
OF LOS ANGELES IN THE BUNKER HILL REDEVELOPMENT
PROJECT AREA.**

IT IS RECOMMENDED THAT THE AUTHORITY:

- 3a. Acting as lead agency, certify that the Second Addendum to the previously certified Final Environmental Impact Report for the Grand Avenue Project has been completed in compliance with the California Environmental Quality Act and reflects the independent judgment and analysis of the Authority and that the Authority has reviewed and considered the information contained in the Second Addendum and Final Environmental Impact Report prior to approving the project; and approve the Second Addendum.
- 3b. Approve and authorize the Chair, or her designee, to execute the Fourth Amendment to Disposition and Development Agreement and ancillary documents which revise the Scope of Development for Grand Avenue Project-Phase I on Parcel Q to allow for adjustments to the prior approvals consistent with the revised concept design and project description previously approved by the CRA/LA and Authority to facilitate the design and refinement of terms for the development of Phase I, including an updated and completed Schedule of Performance as approved by the Authority as recommended in the following paragraph.
- 3c. Approve and authorize the Authority staff to attach to the Fourth Amendment to Disposition and Development Agreement, for Grand Avenue Project-Phase I, in place of the prior Schedule of Performance previously attached, an updated Schedule of Performance which includes a deadline for delivery of definitive agreements between the Developer and SBE Entertainment Group, LLC (Hotel Operator) for the ownership and operation of the hotel development, and deadlines for review and approval of the concept art plan, construction budget, and schematic, design development and final construction documents.

- 3d. Confirm that the Authority's July 31, 2014 deadline for Developer has been met by the prior approval of the Fourth Amendment to the DDA by all three governing entities and also by the City of Los Angeles' action on an updated Memorandum Of Understanding with Developer, and further confirm that the approved updated Schedule of Performance contains additional future deadlines for the Developer relating to Parcel Q, and that future actions of the Authority and other agencies will be required prior to the Developer 's start of construction by December 31, 2015, and authorize Authority staff to take any necessary implementing actions pursuant to the Authority's milestone agreements with the Developer.
- 3e. Authorize the Phase I ground lease and subleases to be conformed to the approved changes as provided in the Fourth Amendment to Disposition and Development Agreement.
- 3f. Designate as authorized to execute documents for the Chair for these approvals, if necessary or convenient for timely execution of project documents, either the Vice-Chair, Secretary, or Director of the Authority.
- 3g. Authorize the County Chief Executive Officer as Authority staff to execute conforming documents and take other actions as necessary consistent with implementation of these approvals.

PURPOSE AND JUSTIFICATION OF RECOMMENDED ACTION

Background

The Grand Avenue Authority (Authority) was created in September 2003 through a Joint Powers Agreement, between the County of Los Angeles (County) and the former Community Redevelopment Agency for the City of Los Angeles (CRA), now the CRA/LA, a Designated Local Authority (successor to the Community Redevelopment Agency of the City of Los Angeles) (CRA/LA) and is a separate legal entity, which selected The Related Companies, L.P. (Developer) as the developer for the Grand Avenue Project in September 2004 after a public process.

In March 2007, August 2010, April 2011, and December 2012 the Authority approved various actions relating to the phased development of the Grand Avenue Project. Among those actions was the approval, in form and substance, of the First, Second, and Third Amendments to the DDA (Amended DDA) between the Authority and the Developer, which: 1) outlined the terms and conditions for development and lease of the Bunker Hill Properties owned by the County and CRA/LA; 2) approved the change in Scope of Development to permit construction of the Broad Museum as Grand Avenue Project-Phase IIA; 3) divided Phase II of the Grand Avenue Project into Phases IIB and

IIC; and 4) approved the modification in Scope of Development to permit construction of a residential tower as part of the Grand Avenue Project–Phase IIB (Parcel M).

Section 501(1) of the Amended DDA, provides that the Schedule of Performance for Phase I is subject to revision from time to time as mutually agreed upon in writing by the Authority and Developer. At the Developer's request, the Authority has approved time extensions to the Schedule of Performance for Phase I.

Since the Authority's approval in March 2007 of the original Project Phase I–Parcel Q design, certain elements of the Project have changed and have been implemented differently than originally envisioned. In 2010, the construction and implementation of Grand Park was approved with the completion date of June 2012. In addition, in 2010, the Broad Museum was approved and construction begun on Parcel L. In 2012, a mixed-use development on Parcel M-2, owned by the CRA/LA was approved and construction begun.

Grand Avenue Project – Phase I Scope of Development

The recommended actions in this report, primarily relate to the Grand Avenue Project–Phase I (Phase I Project), the proposed residential, hotel, retail, and restaurant uses and provide for modifications to the DDA, as amended by the First, Second and Third Amendments, to conform to Phase I final scope of development (Attachment A, Fourth Amendment to the DDA).

In November 2013, in accordance with the September Letter of Understanding between the Developer and the Authority, the Developer delivered the drawings/renderings that illustrate a revised concept design for the entire Parcel Q Plan and the revised Project description/project formulation documents to be used in the required updated environmental documentation.

On January 15, 2014, the Authority approved the proposed revisions to the Grand Avenue Project–Phase I Plans (Parcel Q Plan) for a proposed mixed-use development on Parcel Q as designed by acclaimed architect Frank Gehry.

On January 21, 2014, the Authority accepted the Fourth Amendment to the DDA as executed and delivered by the Developer as meeting a required milestone before submission of the documents to the governing public entities for their consideration. The amendment of a DDA and any change in the Scope of Development requires approval by the City of Los Angeles (City), CRA/LA, the County and the Authority. The required approvals from other jurisdictions were obtained by the CRA/LA on May 1, 2014; by the County on April 22, 2014; and by the City Council on June 25, 2014.

The proposed redesigned Project Plan for the 140,263 square-foot land parcel known as Parcel Q reflects changes since the 2007 Authority approval of schematic design plans. The proposed redesigned mixed-use development includes a residential tower to be located on Second Street between Grand Avenue and Olive Street, formerly located on First and Olive Streets, and a hotel tower to be located on the corner of Grand Avenue and First Street, formerly located on Second Street and Grand Avenue, along with a public plaza, retail/commercial spaces, and various streetscape and site landscaping improvements.

The summary of changes to the Parcel Q Project Plan includes:

1. Total net Residential units decreased from 500 units in the 2007 Program to approximately 450 units;
2. Total Hotel keys increased from 275 keys to approximately 300 keys;
3. Total Retail/Commercial square footage decreased from 250,000 square feet to approximately 200,000 square feet;
4. Total Office square footage increased from 0 square feet to approximately 47,000 square feet; and
5. Parking spaces decreased from 1,510 spaces to 1,350 spaces.

Proposed Project

The proposed residential tower consists of approximately 37 stories containing approximately 450 residential units and approximately 100,000 square feet of retail development, to be located on the southerly portion of Parcel Q abutting Grand Avenue, Olive and Second Streets. The proposed revised Project Plan reflects a mix of types of residential units comprised of market rate apartment units, with the planned inclusion of a 20 percent affordable housing component, and for sale condominiums. The rent for the residential units (excluding affordable) will be comparable to rents for other high-end residential tower projects in downtown Los Angeles.

The proposed hotel tower will consist of an approximately 300 key, 4-star hotel; approximately 100,000 square feet of retail food and beverage facilities, and can include a health club and up to 50,000 square feet of office space.

Connecting the residential and hotel towers is a proposed public plaza surrounded by retail amenities, with pedestrian access from Grand Avenue, Olive and First Streets. Further, the proposed public plaza will provide a visual and accessible connection to the underground parking garage and offer a visual connection through the development

between Olive Street and Grand Avenue. The Developer will be required to grant a public access easement across the plaza area to assure continued uninterrupted access by the public.

The Developer has entered into a Grand Avenue Parcel Q Term Sheet – Preliminary Venture Agreement and Management Agreement with SBE Entertainment Group for the hotel and associated retail, dining and entertainment facilities as part of the Project. SBE Entertainment Group is expected to be co-developer and joint venture partner with Related, as well as the hotel operator. Each of Related and SBE Entertainment Group are funding pre-development expenses and intend to fund equity capital for the Project, in addition to future potential investments by limited partners and loans for construction financing.

Amendment to the Disposition and Development Agreement

The Fourth Amendment to the DDA (Attachment A) has been executed by the Developer and incorporates updated revisions to the Scope of Development for Phase I and documents the terms and conditions for the mixed-use development to be constructed and operated, including an updated Schedule of Performance with further details in the schedule to be submitted by Developer and approved by the Authority (Attachment C).

The Fourth Amendment to the DDA includes changes to the Schedule of Performance in order to meet the current construction timeline based on a start date no later than December 31, 2015. The changes to the schedule include moving the construction completion date to no later than September 30, 2019. The Developer will be held to a set of early milestones requiring the submission of further evidence of financing, commitment from the City of Los Angeles for Transit Occupancy Tax and operational structure.

A summary of the additions and changes to the terms pertaining to Phase I of the Project is as follows:

- Specific deliverables from Developer have been identified to be due no later than four milestone dates:

March 31, 2014:	pro forma Phase I budget (submitted); completed Schedule of Performance (submitted); and submission for review of an executed preliminary venture agreement and management agreement between the Developer and hotel partner (submitted).
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July 31, 2014: preliminary approval by the City of the Parking and Hotel Tax Rebates in an updated Memorandum of Understanding (City MOU) between the Developer and the City (approved); and City approval of the Fourth Amendment to the DDA (subject to a 30-day meet and confer process) (approved).

December 31, 2015: commencement of construction

September 30, 2019: certificate of substantial completion for the entirety of Phase 1.

- Project documents provide that if the March 31, 2014 and July 31, 2014 Milestone dates are met, then a Quitclaim Deed executed by the Developer in favor of the Authority releasing the Developer's leasehold interest in the Phase I parcel, which Deed is held in escrow at First American Title Company, will be returned to the Developer.
- Project documents also provide that if the July 31, 2014 Milestone date is not met, then the Authority and Developer have agreed to meet and confer for up to 30 days. If after the 30-day meet and confer period, the City has not approved the Fourth Amendment to the DDA or the City MOU is not approved, then the DDA and Phase I Ground Lease will terminate automatically, and Authority staff will instruct Escrow Holder to record the Quitclaim Deed releasing the Developer's leasehold interest in the Phase I parcel following a five-day notice to the Developer. Such Project termination would exclude the ongoing construction of Parcels L and M-2, and development otherwise proposed for CRA/LA-owned parcels Phases IIA, and IIB.
- The March 31, 2014 Milestone date has been met.
- The July 31, 2014 Milestone date will be met if the Authority approves the Fourth Amendment to the DDA on this Authority agenda prior to that date. The other three governing entities have met and approved the terms of the DDA. The County as the property owner acted on the Fourth Amendment at its meeting on April 22, 2014. An updated City MOU has been approved by the City of Los Angeles.
- The Developer is committed to spending at least \$8.0 million for architecture and engineering, consultant fees, legal fees, and other expenditures in furtherance of future construction of Phase I improvements between October 1, 2013 and September 30, 2015 (anticipated date of 80 percent construction documents).

- On the earlier of submission of 80 percent construction documents or September 30, 2015, Developer shall pay the Authority a \$7.0 million Extension Fee. The Extension Fee, when received, shall be placed in an interest bearing account and shall be allocated by the Authority to Developer for construction of public improvements and/or affordable housing on the Phase I site. The Authority has sole discretion in the allocation and timing of the disbursement of the Extension Fee, provided that the Authority will determine its allocation and timing prior to commencement of construction by Developer and all of the funds will be disbursed prior to completion of construction of Phase I (subject to 10% retention). If Developer fails to commence or complete the construction of Phase I improvements, Developer will have no right to any of the funds held by the Authority or to any refund of the Extension Fee except to the extent already paid to or for the benefit of Developer by Authority.
- Concurrently with Developer's payment of the Extension Fee, Developer shall pay an additional \$1.0 million to the Authority. This additional \$1.0 million, when received, represents the amount that the Authority and Developer had previously stipulated to be the net present value of certain incentive rent from the residential component and a portion of the retail component in the originally planned first phase of the development of Parcel Q. This \$1.0 million will be held by the County on behalf of the Authority until the Authority and Developer negotiate a definitive agreement regarding incentive rent for the entirety of Phase I under the new development program, which could include commitment of these funds to the public improvements and/or affordable housing on the Phase I site, though no such commitment has been made at this time.

On July 10, 2014, Latham & Watkins, on behalf of the Developer, submitted a letter indicating the satisfaction of all preliminary milestones including the City of Los Angeles approvals and requesting acknowledgement of this compliance (Attachment D). The Authority and its two member agencies are not parties to the City MOU, and the Authority's confirmation that this milestone is met does not constitute any position of the Authority or its member agencies on the City MOU terms.

It is recommended that the Authority approve these revisions to the Project-Phase I Scope of Development and related documents to facilitate the objectives of the Project for Phase I.

The amended DDA requires that the Developer's Schematic Design Drawings for Phase I must be submitted to the County and to the Authority for review and approval or disapproval as provided in the DDA.

It also is anticipated that future Authority action will be required to conclude a definitive re- negotiation on issues relating to the potential incentive rent from Phase I as provided in the DDA, as well as any final actions relating to the total Project budget and financing

sources once those are finalized, including but not limited to, the final venture agreement and related documents for Phase I upon completion of documentation between Related and SBE Entertainment Group, and the priorities of rights between and among the lenders, investors, and leaseholders. In its July 10 letter, the Developer also has requested cooperation of the Authority and the County in maximizing potential City financial assistance as part of the financing for the Project.

Environmental Documentation

In May 2005, acting as the lead agency, the Authority found that the approval of an Implementation Plan, which defined the project description for an EIR and project development was exempt from California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Sections 15362 and 15061(b)(3). These actions to review proposed changes to that project description without any commitment to changing the project or approving changes to previously approved development is exempt from CEQA on the same grounds.

In November 2006, acting as the lead agency, the Authority certified the Grand Avenue Project Environmental Impact Report (Final EIR) for the Project, a mixed use development on Parcels Q, W-2, L, M-2, and potentially W-1, along with a revitalized and expanded civic park.

In August 2010, the Authority certified the Addendum to the previously certified Final EIR in connection with the First Amendment to the DDA and a change in the scope of development to permit the Broad Museum improvements on Parcel L (Phase IIA Project).

In April 2011, the Authority approved a Second Amendment to the DDA, which addressed a less dense scope of development on Parcels L and M (Phases IIB and IIC) owned by the CRA/LA and an acceleration of construction of previously approved public improvement to be part of the Parcel L Broad Museum construction schedule. No further environmental review was required for the amended and less dense scope of development as the amended scope was within the scope of the previously certified Final EIR and Addendum.

In December 2012, the Authority approved a Third Amendment to the DDA, which addressed the proposed changes in the Scope of Development and proposed financing plan for Phase IIB on Parcel M-2. No further environmental review was required for the recommended actions based on the Grand Avenue Project record because since certification of the Final EIR and Addendum there has been no change to the Project or substantial changes in circumstances or new information that would warrant subsequent environmental analysis.

The Second Addendum to the Final EIR (Attachment B) is the updated environmental documentation for the recommended actions. The Addendum analyzes potential environmental effects, which may be associated with change in project scope of development for Phase I. The Second Addendum to the Final EIR demonstrates that environmental impacts resulting from the revised scope would not result in any new significant impacts beyond those previously analyzed in the previously certified Addendum and Final EIR and would not result in a substantial increase in the severity of significant impacts previously identified in that EIR. In addition, the analysis demonstrates there will be no substantial changes with respect to the circumstances under which the project will take place and no new information of significance to the environmental analysis became known. The mitigation measures and related conditions of approval from the certified EIR applicable to the Phase I project as revised have been reviewed and will be required and monitored for compliance.